

Clandestine Services Review
6 June 1958

ECONOMIC INTELLIGENCE - ORR

Opportunity to speak to you briefly on subject of economic intelligence also provides opportunity to review our relationships with the clandestine services.

As I see it, these relationships today are far closer than they have ever been in the past. This benefits everyone. Our analysts have a better appreciation of your collection capabilities. Our requirements are presented more usefully and effectively because of this and we get better reports from you. There is, of course, a beneficial feedback to DD/P in the improved quality of studies we prepare for your various offices.

All our people are delighted at the progress being made, and hope that in the future our relationships will be even closer.

In a few minutes, I would like to sketch in the outlines of what economic research is up to, and how your reporting ties into it. (More than a basic research shop. Stress on current intelligence reporting to OCI publication, DD/I and DCI, and briefings for the NSC.)

For the first time, we are putting a substantial research effort on the economic aspects of Soviet guided missile programs. On this subject of high national intelligence priority, we have beefed up our research unit by 20 positions. This reflects the recent assignment to ORR of primary responsibility within CIA for intelligence on the operational

- 2 -

deployment of guided missile systems. This is in addition to ORR's continuing responsibility for intelligence on the production of missile systems, as well as cost and feasibility estimates. Covert reports have been valuable in the guided missile field in the past. We believe that their value can be considerably increased in the future. We are currently devoting a considerable amount of time in direct support of covert collection efforts. This support includes the preparation of comprehensive guidance materials on collection of missile information, as well as specific support and guidance on particular problems. In conjunction with DD/P, we are attempting to provide field collectors, including the

25X1X7 [redacted] with greatly improved guidance for use in collection from both continuing and one-time sources.

We have been particularly impressed by the type of information which has been in some CS reports. For example, [redacted] 25X1A2g "Soviet Policy on the Production of Weapons" dated 11 September 1957, from a source with contacts in the Soviet Ministry of Defense, attributes to Marshal Zhukov the statement that because of rapid technical developments today, especially in the guided missile field, modern weapons may not always go into mass production. The report cites both Soviet bomber and missile production as a case in point. When studied with other information on weapons production, this report casts considerable light on current policy on Soviet weapons production. Soviet policy statements

SECRET

- 3 -

of this sort, when they can be reliably attributed to officials or departments logically concerned with the problem, contribute directly to national estimates and to the interpretation of Soviet intentions. We believe that sources with this type of contact can be used to obtain other important reflections of Soviet production and deployment policy.

25X1A2g [REDACTED], "Zavod No. 456, Missile Plant in Khimki," dated 25X1X7 25 March 1958, from [REDACTED] is an excellent example of the possibilities of obtaining useful guided missile production information through [REDACTED]. Particularly noteworthy was the source's 25X1X7 information on trainees assigned to a guided missile development installation on detached duty from a plant which was to take on series production of the missile. The number of these trainees and the timing of this event, when considered with other information, resulted in a considerable change in our estimate of Soviet surface-to-surface ballistic missile production. The utility of this information illustrates the importance of reporting all indications of inter-plant relationships in industrial reports, as well as detailed information on the chronology of historical events.

As Soviet guided missile operational capabilities increase, accurate and detailed reporting on launching sites is assuming greatly increased intelligence significance and will be essential to our estimates of the magnitude and imminence of the Soviet guided missile threat.

- 4 -

A second research area which should be highlighted is that of Soviet economic penetration of underdeveloped countries. For many years now, ORR has carried the major responsibility within the intelligence community for contributing the economic analysis section of all national intelligence estimates on the Sino-Soviet Bloc.

Since the Soviet economic offense began, we have diverted a larger and larger percentage of our resources to the analysis of Soviet capabilities in this field, and to the close following of Soviet economic activities abroad. We now contribute to many free world NIE's, and the Office of National Estimates is far and away our largest single customer. It takes 30% of our total research time and this is a 50% increase in the past four years. (Also publish bi-weekly reports on Sino-Soviet Bloc economic activities in underdeveloped areas. Joint venture with State Dept.)

Clandestine reporting is a very important source in following Soviet penetration. Reports on activities in Syria, Afghanistan have supplied unique and valuable information.

In the trade field we have received from you information concerning the various financial aspects of trade, such as:

- a. Differences in internal and foreign trade prices
- b. Subsidization of imports and exports
- c. Prices and price policies, and
- d. Credit arrangements in intra-bloc trade.

SECRET

- 5 -

All this has been most useful. It is often incomplete, and we would like to receive more. If the kind of financial reporting that comes out of Hong Kong were more universal life would be much easier.

Specifically, the continuous reporting from [REDACTED] 25X1A5a1

25X1A5a1



These reports have been an excellent source of intelligence on the Chinese balance of payments situation and general foreign trade patterns.

Turning to the USSR itself, I would like to emphasize the increased reliance we are placing on clandestine reports giving military and military-industrial cost, financial and budgetary data. Information of this type is not available through overt sources. It is, however, essential to the task of estimating Soviet capabilities and intentions, and in putting other pieces of information into a meaningful context for national intelligence purposes.

In our costing out the Soviet military establishment, we have concluded that, in absolute terms, they are putting out an effort comparable to our own. In other words, with a gross national product a little over 40 per cent of ours, the Soviets are matching our outlays for military

- 6 -

purposes. Underlying this conclusion are, among other things, a very large number of clandestine reports on Soviet military organization, pay and allowances, construction and procurement.

This conclusion was in the last National Intelligence Estimate of Soviet Capabilities and Courses of Action. It was considered important enough to be publicly released by Mr. Dulles on April 28th of this year. It will be emphasized again by Secretary of Defense McElroy in a public speech to be delivered in the next few days.

In any very brief review of ORR economic research and the value of clandestine reporting to us, it is inevitable that there will be sins of omission. For this, I apologize.

There is one more highlight that must be brought in, and that is the excellent reporting on Poland, which is often documentary. We were able to make full use of it recently in a special report requested by the White House on the status of the Polish economy.

Turning to the other side of the coin, besides regular guidance to DD/P channels and requirements for further information, on a periodic basis our personnel have provided substantive support for DD/P operations.

The major support has been in the provision of information on and analysis of Bloc economic penetration activities, for the purpose of backstopping the DD/P effort at countermeasures. Comprehensive studies, have been written to analyze the relative effects of Bloc and Western

SECRET

- 7 -

assistance on economic progress in particular Free World underdeveloped countries. Other support has varied from responses to ad hoc requests for missing information needed for the development of effective propaganda to the joint preparation with PP/ECON of background intelligence for field use in connection with specific projects.

We also support the DD/P representative on the OCB Board Assistants. Summary statements on the Bloc's economic relations with specific countries are prepared for inclusion in OCB country studies.

We are often called upon to advise DD/P personnel on technical developments in transportation, operational methods in a given country, information on railway schedules in specific areas, and briefings on fixed transport installations in target areas.

We have prepared situation reports for DD/P use on current cases, for training and background information purposes, or for exchange with foreign intelligence organizations.

We have furnished personnel with special skills to assist in DD/P operations and programs, in some cases for as long as two years tours.

Looking out into the future, our judgment is that, barring a Soviet military break through, the fateful battles of the East-West contest are going to be fought out in the economic and subversive arenas.

If this judgement is correct, as I am convinced it is, there is a very big intelligence job for both sides of the house, and a need to work more closely together than ever before.

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